MILK MARKETING IN BRITISH COLUMBIA

A Choice for the Future

A Presentation by
The B.C. Milk Industry Task Force
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Chairman: Mr. Harry DeJong, MLA

Ministry of Agriculture and Fisheries
Hon. John L. Savage, Minister

British Columbia's Dairy Industry

British Columbia's dairy industry plays an important role in the provincial economy. It includes over 1,000 producers who produce over 500 million litres of milk per year and generate 25 per cent of B.C. farm sales. Dairy farming in B.C. is

Efficient,

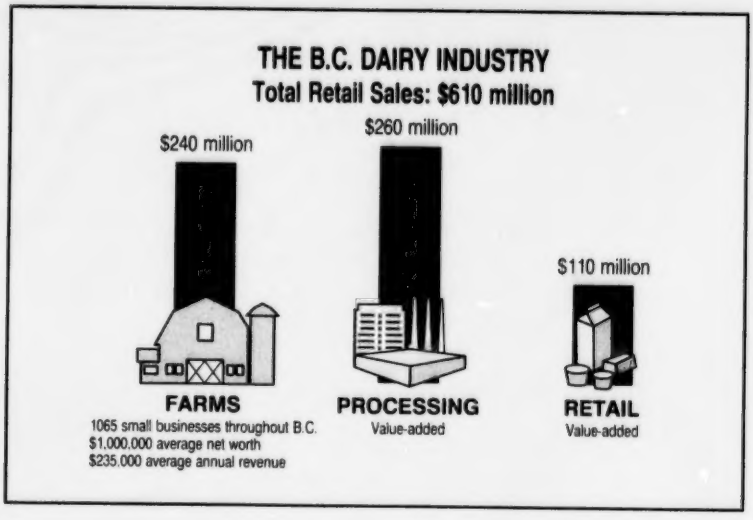
In B.C., the average dairy herd is one third larger than the national average. The average milk production per cow is the highest in Canada.

Profitable, and

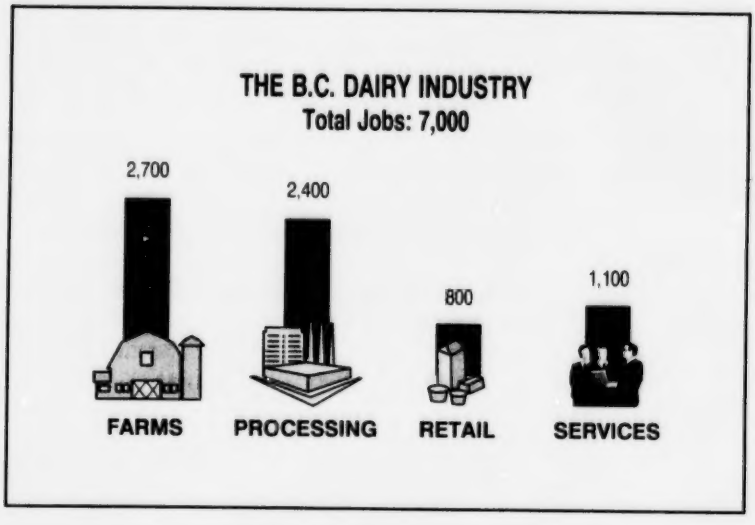
In B.C., the average net worth of a dairy farm is $1.0 million (B.C. Farm Credit Corporation Survey, 1988). In Canada as a whole, the average net worth of a dairy farm is $450,000. Moreover, average farm dairy sales total $235,000 per year. The average sales for **all types** of farms in B.C. is $56,250.

Recognized for its innovation and quality.

B.C. dairy processors are viewed as among the most innovative in Canada in terms of product development and promotion. At the same time, the B.C. dairy processing industry has a reputation for producing high quality milk and milk products.



The B.C. Dairy Industry



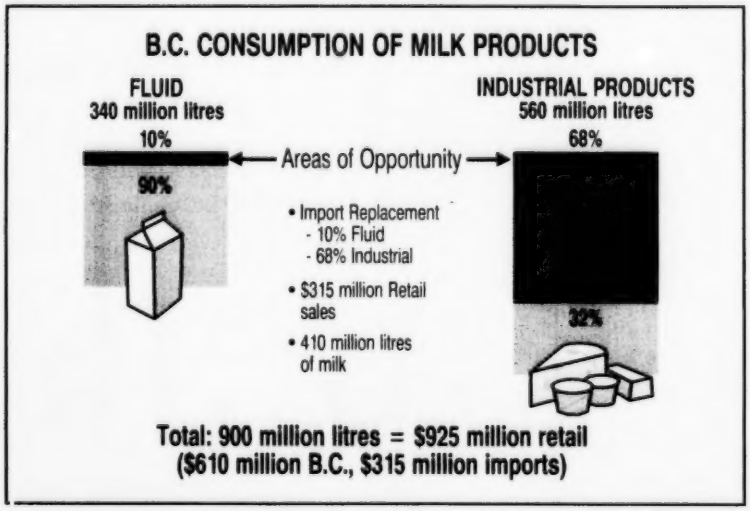
The Challenge

In 1973, British Columbia joined the National Milk Marketing Plan. The plan includes every province in the country, except Newfoundland. Provincial agreement to participate in the plan is valid for five years. The current agreement expires July 31, 1989.

Over the past fifteen years the plan has served the industry well, providing growth and stability. Indeed, while milk production nationwide has declined, British Columbia's production (as measured by the Milk Supply Quota Allocation under the National Plan) has grown steadily.

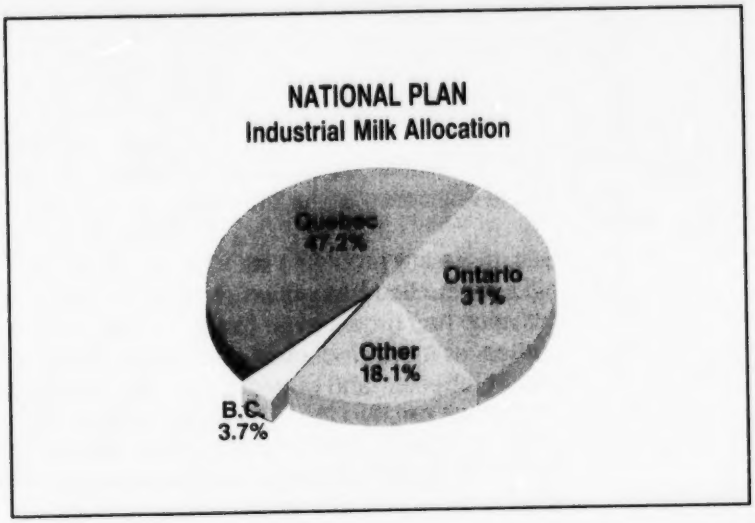
Still, there are problems with the National Plan. Although British Columbia's production has grown under the National Plan, consumption in the province has grown even more. In fact, British Columbia today consumes far more "industrial milk" (in the form of milk products such as yogurt, cheese, and butter) than it produces. Overall, British Columbia consumes nearly 12% of the total national consumption of dairy products, but the province's share of the national production quota is less than 4%. British Columbia has the lowest per capita share of MSQ (Milk Supply Quota) of any province.

British Columbia consumption of fluid and industrial milk, as compared to production

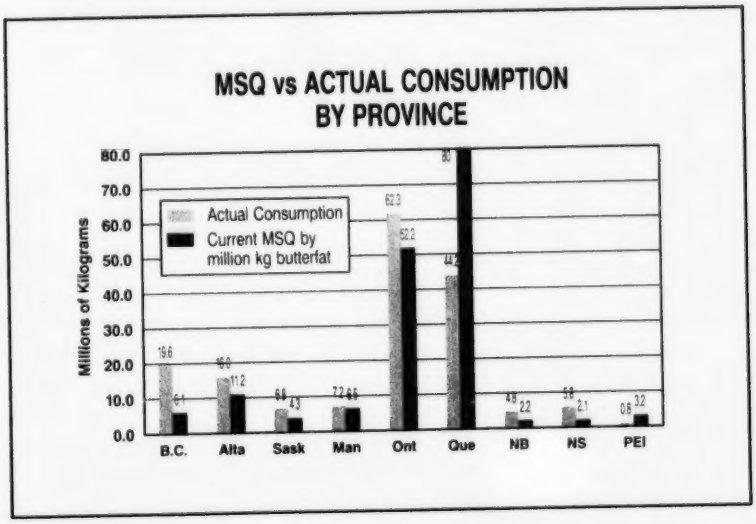


What this means is that British Columbia is no longer getting a fair share of the national quota for industrial milk production. The result is that two-thirds of the dairy products consumed in British Columbia come from outside the province. **Approximately 60 per cent of our cheese and 95 per cent of our butter is imported.**

Industrial milk allocation under the National Plan



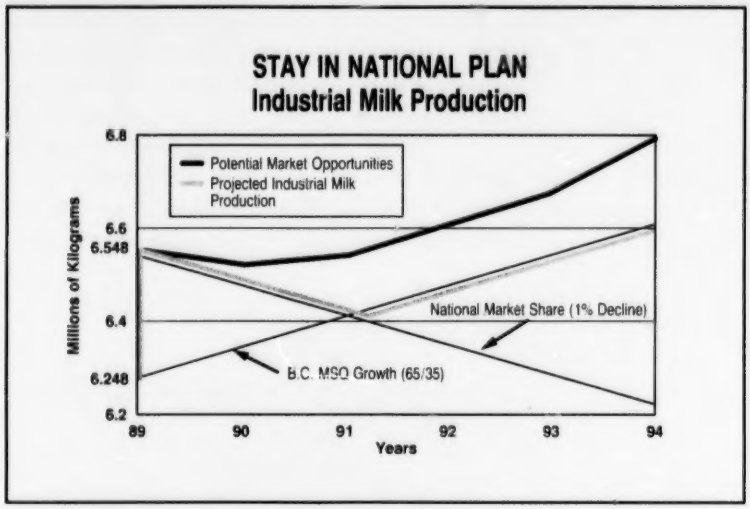
MSQ vs actual consumption, by province, 1988



Over the past two years, negotiators for the Province have tried to convince other provinces to allocate a fairer milk production quota to British Columbia. Specifically, British Columbia requested a 20% increase in its share of the national quota. Yet opposition from other provinces (particularly Quebec, which has sought to maintain its historical share of production) has prevented British Columbia from obtaining a fairer deal. If British Columbia wishes to remain in the National Plan it must accept a five-year agreement, which provides:

- a 5.9% increase over current MSQ of 6.248 million kg to a maximum of 6.614 million kg;
- a share in future reductions of the national MSQ, but no share in increases;
- that the 65/35 formula will continue to determine the floor for the province's MSQ allocation (but based on B.C. sales, not total consumption); and
- the opportunity to participate in up to 1% of national MSQ for new product development (even here, Quebec argues for historical share).

The projected impact on production of B.C. remaining in the National Plan



In effect, British Columbia's share of our own market for dairy products will decline if we stay in the National Plan because our growth in market share quota is expected to be less than the growth in population. This is not a good deal for British Columbia. Every year, approximately 360 million litres worth of milk products are entering the province - products that could be produced here for consumption in British Columbia. In terms of missed opportunity this represents:

- over $300 million per year lost to the provincial economy;
- 3600 jobs lost to the province [1]; and
- potentially productive farmland underutilized in British Columbia.

[1] It is estimated that every 20 million new litres of industrial milk production produces an additional 200 new jobs and $20 million in sales (Source: British Columbia Ministry of Finance, Input-output Tables).

The Proposed Provincial Plan

The government of British Columbia believes that leaving the National Milk Marketing Plan is the best option for the province. It recognizes, however, that there are risks and costs associated with this course of action. The proposed Provincial Plan is designed to help dairy producers adapt to the change and to maximize the benefits of opting out.

Supply management will be retained.

- Existing legislation will be amended to ensure equitable and orderly marketing.
- The British Columbia Milk Board will set producer quotas.
- Established, licensed milk producers would be allowed to keep their existing levels of quota (i.e., existing quotas will be "grandfathered"). Currently about 1000 farmers produce about 180 million litres of industrial-use milk a year in B.C. The established farmers would also retain their right to transfer their quota, under an existing formula.
- Dairy farmers in B.C. would be allowed to increase total milk production by about 20 million litres a year, in each of the coming two years (this translates as an increase of 1.5 million kg of butterfat equivalent over the next two years - about 24 per cent). After the second year, the size of incremental increase to the total volume of production would be examined.
- Up to 20 per cent of the additional milk production would be reserved for new producers entering the dairy farming business. Up to 10 per cent of the new volume would be reserved for the "cottage dairy industry" - those small producers who provide their own source of milk for milk-product manufacture.
- Half of the remainder will be allocated to producers on a per farm basis; the other half will be in proportion to the producer's production level in the previous year.
- Over-quota production will be subject to a punitive levy.

Producer incomes will be maintained

- For the next five years, the Province guarantees producers the prices that they would have received if B.C. remained in the National Plan on a base level of production of up to 6.6 million kg. of butterfat equivalent.

- Producer prices for the base level of production will continue to be based on the federal support prices.

- The provincial government will pay producers the equivalent of the federal subsidy, net of all levies, on this base level of production. This is currently about 3.5¢/litre. The total impact on the treasury would be about $6 million a year.

- The provincial government will provide retaliatory support, as needed, to prevent outside producers from "dumping" milk or milk products in the British Columbia market.

Production in excess of what would have been allowed under the National Plan will be sold at market prices.

- Of the increase of 1.5 million kg of butterfat equivalent in producer quotas over the next two years, approximately 1.1 million kg will be production over base (i.e., over the base amount that would be allowed if the province were to remain in the National Plan).

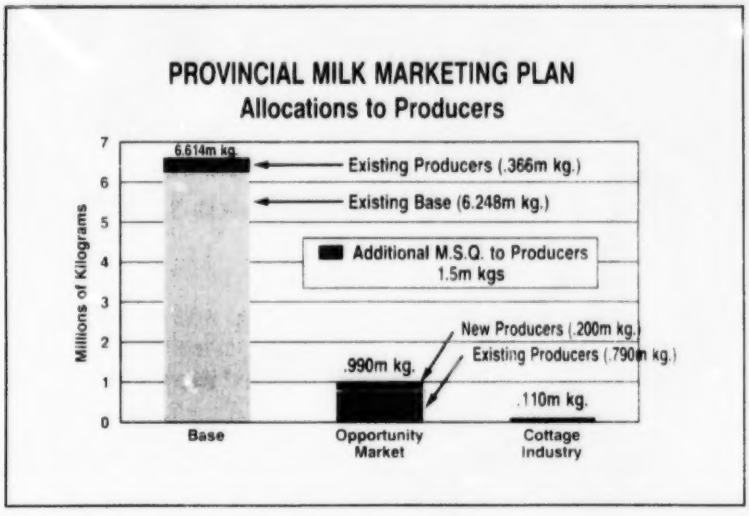
- No subsidies will be paid on over base production (i.e., the 3.5¢/litre subsidy would not be extended to volumes of milk produced above the quota level that would have existed under the National Plan).

- Processors of milk would be permitted to increase their current allotment by bidding for the additional milk supplies. The bidding process would be administered by the B.C. Milk Board. Before being able to buy new milk supplies, however, processors would first have to meet existing purchase obligations to producers with milk quota. Processors would also have to pay the existing price for milk produced under the old quota system.

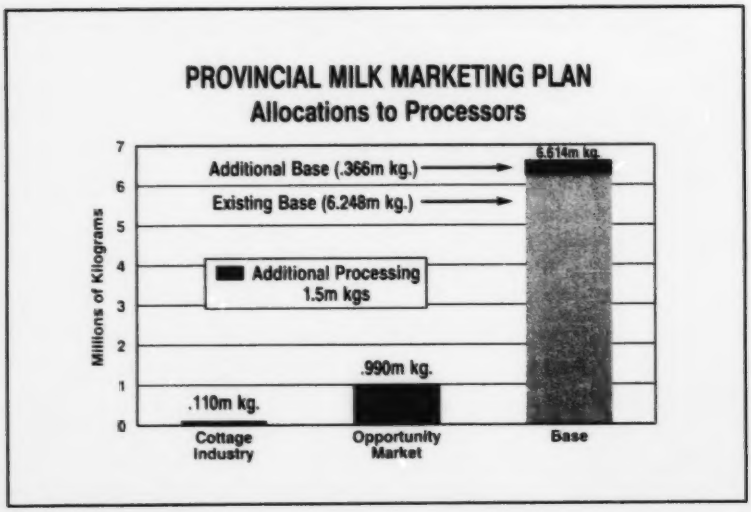
- Licensed producers will be offered an over base production quota at the price bid by processors (i.e., a blended price, reflecting all accepted processor bids). Maximum producer quota allocation will depend on total processor demand. Producer allocations will be based on their existing MSQ for 50 per cent of the total demand for over base production and will be distributed on a per farm basis for the other 50 per cent.

- Allocation of over base production will be determined annually, and neither producers nor processors will be allowed to transfer allocations, without Milk Board approval.

Allocation of Milk Supply Quota to producers under the proposed Provincial Plan



Allocation of increased production to processors under the proposed Provincial Plan



Support will be provided for new product development.

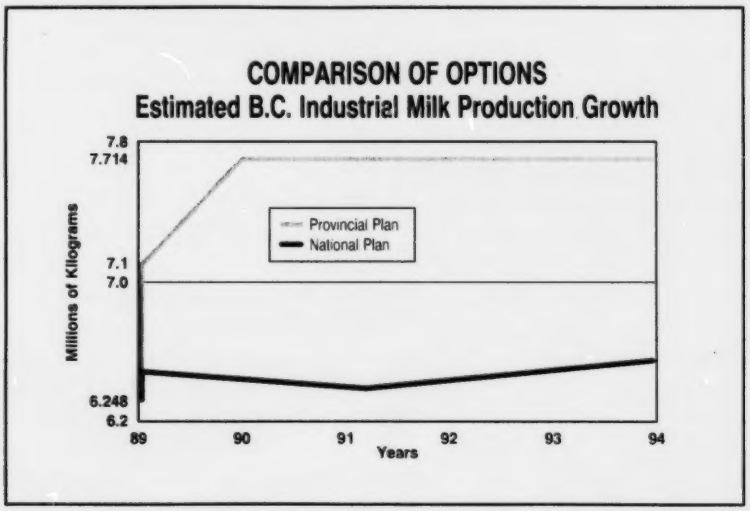
- To help industry develop and market new products in the Canadian market, the provincial government will share 50 per cent of development costs over the next two years to a maximum of $2.0 million.

The Options

For British Columbia, there are two options:

1. remain within the National Plan on the terms that have been offered; or,
2. opt out of the National Plan and establish a Provincial Plan to maintain supply management and create the conditions that will allow provincial producers to take full advantage of the opportunities in the British Columbia market.

Milk production potential under the National Plan versus milk production potential under the proposed Provincial Plan



Option 1: Remain in the National Plan

A number of factors make it impossible to guarantee that remaining in the National Plan will ensure long-term growth and stability for the industry:

- **The current milk marketing plan is being challenged by producers;**
  Lack of opportunity for industry growth has already led some producers to undertake a legal challenge of the National Milk Marketing Plan. Recent decisions of the British Columbia Supreme Court in the Clearview case enable producer-processors to produce and market cheese outside of the Milk Marketing Plan area. Clearly, room for new production is required if orderly management of the milk supply management system is to be retained.

- **The international trading situation is undergoing change;**
  GATT negotiations and the current GATT case on yogurt and ice cream indicate that international producers will be challenging the National Milk Marketing Plan (e.g., a challenge to the fixed quota for cheese is expected). Other potential threats include the growing market for imitation dairy products and the importing of further-processed food products (e.g., pizzas and bakery products).

- **The federal subsidy is uncertain beyond 1991, and has already been frozen; and**

- **Within the National Plan, Quebec will continue to insist on maintaining its historical share of production.**

Option 2: Leave the National Plan

Although it presents risks for producers, the option of leaving the National Plan offers some positive benefits, for both industry and consumers.

BENEFITS FOR INDUSTRY

- **There is opportunity for industry growth.**
  The British Columbia dairy industry would be able to expand production to meet the needs of the British Columbia market. This would create more wealth and lead to higher employment within the province. A growing industry would also make it possible for more young farmers to enter into dairy farming.

- **Supply management can be retained, even as production and processing become more attuned to markets.**
  Existing legislation can be amended to ensure equitable and orderly marketing, and the B.C. Milk Board can set producer quotas.

- **The utility of B.C. farmland can be increased.**
  Agricultural land now being used for relatively non-productive purposes will yield a higher economic return as new dairy farmers expand the industry. This means that valuable agricultural land would be better able to withstand the pressures of urban growth.

BENEFITS FOR CONSUMERS

- **Lower consumer prices can be achieved.**
  In the short term, there would likely be little impact on pricing at the consumer level. As greater diversity of milk products appear on the shelves, however, competition could lead to some price reductions.

- **Innovation and product development in dairy processing would be encouraged.**
  Consumers rightly expect to have access to a wide variety of fresh, high-quality dairy products in British Columbia. Quality matters to almost all consumers, and the majority also value products that have been produced in British Columbia.

- **Opportunity for new employment exists.**
  Industry growth would create more wealth and lead to higher employment within the province.

B.C. Consumer Opinions

Dairy Industry

Consumers value quality

	Percent
Very unimportant	1.0
Somewhat unimportant	4.3
Neither	1.0
Somewhat important	13.3
Very important	80.5
TOTAL	100.0

Important 93.8% Unimportant 5.3%

Consumers value B.C. product

	Percent
Very unimportant	12.3
Somewhat unimportant	18.8
Neither	1.0
Somewhat important	24.8
Very important	43.3
TOTAL	100.0

Important 68.1% Unimportant 31.1%

Consumers believe B.C. produces most of its own butter.

	Percent
Outside B.C.	3.8
Don't know	11.0
Inside B.C.	85.3
TOTAL	100.0

Consumers believe B.C. produces most of its own cheese.

	Percent
Outside B.C.	12.8
Don't know	9.0
Inside B.C.	78.3
TOTAL	100.0

(Source: B.C. Ministry of Agriculture and Fisheries Milk Survey -- January, 1989)

Summary

The British Columbia milk industry has reached a fork in the road. We have but two choices: we can accept what is being offered as essentially the status quo (and in reality move backwards as an industry), or we can move forward with a system tailored to B.C.

We have participated in good faith in the National Milk Marketing Plan for many years. We are, however, faced with a situation that prevents us from realizing our full potential in the production and processing of dairy products. Our dairy industry can compete with any in the world, with its heritage of high-quality products at competitive prices. Yet our capability to meet local demand for high-quality B.C. products has been restricted by those in other parts of Canada who do not wish to see our domestic industry grow.

We must prepare ourselves and our industry to meet the challenges of the 1990s. To achieve both growth and stability in the dairy industry, we must become masters of our own future and take action to assure our competitive edge. Only by effectively tackling the challenges of today can we create a stronger tomorrow.

Appendix

The Likely Impact of the Provincial Plan on Producers

As a matter of public policy, the proposed Provincial Plan provides an opportunity for growth and facilitates the entry of new producers into the market. To give an idea of the likely impact of the proposed Provincial Plan on producers, the following analysis of quota allocation has been prepared for three different-sized producers.

	Producer 1	Producer 2	Producer 3
Present MSQ	25 000 kg	12 000 kg	2 000 kg
Allot 50% of 366 000 on basis of equal number of kg to each producer	178	178	178
Allot 50% of 366 000 on percentage of MSQ held	705	341	61
Allot 50% of 990 000 on basis of equal number of kg to each producer	480	480	480
Allot 50% of 990 000 on percentage of MSQ held	1 845	910	190
Approximate MSQ allotment August 1991	28 208 kg	13 909 kg	2 909 kg
Approximate percentage increase over present MSQ	12.8%	15.9%	45.5%

The proposed Provincial Plan offers enhanced opportunity for all dairy farmers. The opportunities for benefit balance the risk. Compared with the National Plan, the proposed Provincial Plan represents a better deal for British Columbia.